

CONFIDENTIAL

FY 2007 Total Compensation Review - Global - Top 50

By Descending 2007 Total Compensation

	Unit	Name	Hired	Title	Region	Group	TC 05	TC 06	Change	TC 07	Change
1	PI	Millard, Robert B.	Jun-76	MD	Americas	Global Trading Strategies	3,760,000	44,531,949	1084%	51,347,377	15%
2	IMD	Schwartz, Marvin C	Jan-61	MD	Americas	Asset Management	19,315,822	27,011,126	40%	31,141,837	15%
3	FID	Hoffman, Jonathan	Aug-94	MD	Americas	Trading - Global Rates	14,750,400	19,851,059	35%	30,850,000	55%
4	EQ	Cassanini, John A.	Feb-05	SVP	Americas	Trading - US Proprietary	639,361	3,493,000	446%	18,500,000	430%
5	PI	Klein, Henry	Mar-03	MD	Americas	Global Trading Strategies	1,300,000	6,200,000	377%	18,200,000	194%
6	EQ	Penkett, Paul Alexis	Jun-97	SVP	Asia	Trading - Asia Proprietary	5,500,000 G+	10,000,000 G+	82%	18,000,000	80%
7	CORP	Savoret, Benoit C.	Jun-97	MD	Europe	Executive Administration	8,000,000	12,000,000	50%	18,000,000	50%
8	FID	Walsh, Mark A.	Aug-88	MD	Americas	FID Administration	25,000,000	27,500,000	10%	17,500,000	-36%
9	FID	Kirk, Alex	Dec-94	MD	Americas	FID Administration	18,000,000	21,000,000	17%	17,000,000	-19%
10	IMD	Glasebrook II, Richard J.	Apr-03	MD	Americas	Asset Management	6,646,450	12,791,195	92%	16,757,246	31%
11	IMD	Shafiroff, Martin	Aug-69	MD	Americas	Private Investment Management	10,123,001	14,621,311	44%	16,495,404	13%
12	EQ	Bouzouba, Rachid	May-03	MD	Europe	EQ Administration	5,000,000	9,000,000	80%	15,000,000	67%
13	FID	Felder, Eric J.	Apr-94	MD	Americas	Trading - High Grade	7,000,000	15,000,000 G	114%	15,000,000	Flat
14	FID	Lee, Hyung S.	Nov-93	MD	Asia	FID Administration	12,000,000	13,500,000	13%	15,000,000	11%
15	IBD	Taussig, Andrew R.	Oct-05	MD	Americas	Retail/Transportation	13,000,000	14,000,000 G+	8%	14,085,000 G+	1%
16	EQ	Donini, Gerald A.	Jun-98	MD	Americas	EQ Administration	9,000,000	11,000,000	22%	14,000,000	27%
17	EQ	Whalen, Patrick J.	Sep-03	MD	Americas	EQ Administration	9,500,000	12,300,000	29%	13,005,000	6%
18	IMD	Kramer, Jeremy R	Sep-98	MD	Americas	Asset Management	6,686,450	10,504,413	57%	12,875,403	23%
19	FID	Amin, Kaushik	Jun-94	MD	Americas	FID Administration	10,000,000	11,500,000	15%	12,500,000	9%
20	PI	Fuchs, Benjamin A.	Jan-96	MD	Asia	Global Opportunities Group	20,000,000	16,000,000	-20%	12,500,000	-22%
21	FID	Morton, Andrew	May-93	MD	Europe	FID Administration	12,000,000	14,000,000	17%	12,500,000	-11%
22	FID	Humphrey, Thomas P.	Dec-86	MD	Americas	FID Administration	13,000,001	14,500,000	12%	12,250,000	-16%
23	CORP	Banchetti, Riccardo	Aug-93	MD	Europe	Executive Administration	10,000,000	11,000,000	10%	12,000,000	9%
24	EQ	Nagpal, Ajay	Feb-01	MD	Americas	EQ Administration	7,500,000	10,400,000	39%	12,000,000	15%
25	EQ	Thorkelsson, Sigurbjorn	Jun-98	MD	Asia	EQ Administration	5,000,000	7,500,000	50%	12,000,000	60%
26	IMD	Weiner, David I	Feb-94	MD	Americas	Asset Management	6,641,450	9,666,345	46%	11,921,906	23%
27	EQ	Durante, Olivier	May-00	SVP	Americas	Quants - US Systematic Trading	4,500,000	6,000,000	33%	11,700,000	95%
28	EQ	Schneider, Gregoire	May-00	SVP	Americas	Quants - US Systematic Trading	4,500,000	6,000,000	33%	11,700,000	95%
29	IBD	Shafir, Mark G.	Mar-03	MD	Americas	Globei M&A	9,000,000	11,000,000	22%	11,500,000	5%
30	IBD	Weiss, Jeffrey L.	Aug-83	MD	Americas	Financial Services	8,000,000	10,000,000	25%	11,500,000	15%
31	CORP	Jotwani, Tarun	Sep-95	MD	Asia	Executive Administration	7,000,000	10,000,000	43%	11,250,000	13%

Total Comp (TC) is measured as Paid TC, except in the year of hire where TC is calculated as Annual Base Salary + Paid Bonus + Paid Other Comp (eg Housing). All figures are FX neutralized.

As of 9:00am on 1/15/2008

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FY 2007 Total Compensation Review - Global - Top 50

By Descending 2007 Total Compensation

	<u>Unit</u>	<u>Name</u>	<u>Hired</u>	<u>Title</u>	<u>Region</u>	<u>Group</u>	<u>TC 06</u>	<u>TC 06</u>	<u>Change</u>	<u>TC 07</u>	<u>Change</u>
32	EQ	Wickham, John R.	Jul-92	MD	Americas	EQ Administration	7,500,000	9,000,000	20%	11,250,000	25%
33	IBD	L'Esperance, Ros L	Jun-87	MD	Americas	Financial Sponsors	8,000,000	10,000,000	25%	11,000,000	10%
34	IBD	Parker, Paul G.	Jul-95	MD	Americas	Global M&A	7,500,000	10,000,000	33%	11,000,000	10%
35	PI	Rieder, Rick M.	Jul-87	MD	Americas	Global Principal Strategies	14,000,000	16,500,000	18%	11,000,000	-33%
36	IBD	Wieseneck, Larry S.	Oct-97	MD	Americas	Global Finance Admin	7,000,000	10,000,000	43%	11,000,000	10%
37	EQ	Dauhajre, Munir	Aug-07	MD	Americas	EQ Administration	-	-	--	10,000,000	G --
38	IBD	Gatto, Joseph D.	Oct-05	MD	Americas	Global M&A	3,500,000	4,750,000	G+ 36%	10,000,000	111%
39	FID	Higgins, Kieran Noel	Sep-95	MD	Europe	Trading - Global Rates	10,000,000	8,000,000	-20%	10,000,000	25%
40	IBD	Hoffmeister, Perry C.	Aug-88	MD	Europe	Administration	7,500,000	9,000,000	20%	10,000,000	11%
41	IBD	Meissner, Christian Andrea	Jan-04	MD	Europe	Administration	4,500,000	8,000,000	78%	10,000,000	25%
42	FID	Psaki, Jeffrey	Jul-00	SVP	Americas	Trading - High Grade	4,250,000	4,000,000	-6%	10,000,000	150%
43	FID	Pearson, Thomas M.	Mar-01	MD	Asia	Origination - Real Estate	5,000,000	9,000,000	80%	9,000,000	Flat
44	IMD	Ramallo, Henry	Dec-93	MD	Americas	Asset Management	1,554,379	5,319,360	242%	8,579,023	61%
45	FID	Assi, Georges	Jan-01	MD	Europe	Trading - Collateralized Debt	3,250,000	5,000,000	G 54%	8,500,000	70%
46	EQ	Corcoran, Joseph J.	Jul-90	MD	Americas	EQ Administration	4,750,000	5,500,000	16%	8,500,000	55%
47	IBD	Jordan, Nicholas	Apr-07	MD	Europe	Russia	-	-	--	8,500,000	G --
48	EQ	Bacha, Mohamed-Ali	Jul-04	SVP	Europe	Trading - Europe Volatility	1,099,409	4,000,000	264%	8,250,000	106%
49	FID	Mattu, Ravi K.	Mar-91	MD	Americas	FID Administration	7,000,000	8,250,000	18%	8,250,000	Flat
50	PI	Brewer, Paul E.	Mar-93	MD	Americas	Global Trading Strategies	1,394,203	4,200,000	201%	8,200,000	95%
51	PI	Tarnow, Joshua R.	Jan-92	MD	Americas	Global Principal Strategies	3,800,000	5,200,000	37%	8,200,000	58%

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Confidential Presentation to:

Compensation Committee of the Board of Directors

January 23, 2008

LEHMAN BROTHERS

The Firm faces a difficult decision regarding investments in growing the franchise in face of revenue uncertainty.

- ◆ The original bottom up budget, developed in October, had revenue of \$23 billion (up 19%), which at 49.3% comp ratio supported \$300 million investment program (down from \$736 million in 2006) and paid employees up an average 5% (vs. down 1% in 2007).
- ◆ With current market conditions, which have worsened since October, we have revised our revenue expectation down to \$21 billion, which is likely to be back loaded.
- ◆ At this revenue level we cannot support an investment program and would struggle to pay people competitively.
 - In 2007 we maintained discipline and kept comp ratio flat; Morgan Stanley took their ratio up to over 59%, and were able to match Goldman's per person comp increase of 6%.

The Firm's decision in 2002 to not shrink with the industry but stay the course proved the right one as we gained share, strengthened and expanded our franchise and significantly outperformed in the period 2002 – 2005 with revenue and market cap growth far outstripping our competitors.

Financial Performance

	Headcount			Revenue (\$'s in billions)			Market Cap (\$'s in billions)		
	2002 ⁽¹⁾	2005	% Δ	2002	2005	% Δ	2002	2005	% Δ
Lehman Brothers	13,090	22,919	75%	\$ 6.2	\$ 14.6	138%	\$ 14.6	\$ 33.8	132%
Goldman Sachs	22,677	22,425	-1%	14.0	25.2	80%	38.8	59.8	54%
Bear Stearns	10,452	11,843	13%	5.1	7.4	45%	9.3	16.3	75%
Morgan Stanley	61,319	53,218	-13%	19.1	26.8	40%	49.1	60.4	23%
Merrill Lynch	57,100	54,600	-4%	18.4	26.0	42%	37.8	61.0	62%

⁽¹⁾ Headcount as of beginning of 2002

LEHMAN BROTHERS

Recommendation

Management's recommendation, given the substantial opportunities identified to grow the franchise, is to invest \$300 million (out of \$900 million of requests), which likely to include some amount for repricing key talent to retain at Lehman if bid away.

- ◆ Believe Firm's competitors (with exception of Goldman Sachs and JP Morgan) have sustained large losses, weakening their competitive position.
 - Despite recent capital raising efforts, most competitors are still capital-constrained; more likely to retrench to the core of their franchises than to invest in growth.
 - Senior management changes (e.g., BofA, Bear Sterns, Citigroup, Merrill Lynch, Morgan Stanley and UBS), causing organizational turmoil.
 - Significant pool of talent will become available, as many of our competitors' top performers become disillusioned with their firms' strategies and risk management.
- ◆ This presents an opportunity for the Firm to pursue a counter-cyclical growth strategy, similar to that pursued during the 2001-2002 downturn, to improve our competitive position and, over time, generate superior returns for our shareholders.
- ◆ But it will require a one-time raising of the comp ratio to an estimated 52.8%.
- ◆ We are also examining whether to recommend changes to our equity award plan which would lower its long term cost, but might involve one-time transition costs.

Appendix

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FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

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Year on Year Comparison

Lehman outperformed Morgan Stanley, but Morgan increased its comp ratio so as to be able to pay their people up 6% (vs. down 1% for Lehman).

	2006-2007 % Change				
	Goldman Sachs	Lehman Brothers	Morgan Stanley	Bear Stearns	Merrill Lynch
Revenues	22%	10%	-6%	-36%	-67%
EPS	26%	7%	-60%	-89%	-250%
Compensation / Head	6%	-1%	6%	-24%	-17%
• 2007 Comp. / Head (\$K)	661	332	343	242	248
• 2006 Comp. / Head (\$K)	622	334	324	320	300
Compensation / Revenues	+0.2pp	+0.0pp	+12.2pp	+10.5pp	+91.4pp
• 2007 Comp. / Rev.	43.9%	49.3%	59.1%	57.6%	141.4%
• 2006 Comp. / Rev.	43.7%	49.3%	46.9%	47.1%	49.9%

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Growth Opportunities By Business

Budget

Fixed Income

- ◆ Focus on Commodities and Fx and expansion into newer product areas (e.g., Infrastructure, Insurance)
- ◆ Continued geographical expansion into China, India, Singapore, Australia, Eastern Europe, Scandinavia, Spain, Middle East and Latin America
- ◆ Development of eCommerce platform (e.g., FXLive)

Investment Banking

- ◆ Global expansion with particular focus on Australia, Brazil, Canada, India, Middle East and Russia
- ◆ Focus on Financial Institutions, Natural Resources and Industrials
- ◆ Global fee share expected to increase to 4.8% from 4.4% at the end of 2007

Principal Investing

- ◆ Build out of a scalable origination and investing platform – particularly in Europe and Asia
- ◆ Asset class expansion (e.g., Insurance, Emerging Markets)

Equities

- ◆ Expansion into Asia, Emerging Markets (Brazil, Mexico, Russia, Turkey and South Africa)
- ◆ Further diversification of the business franchise by growing Prime Services
- ◆ Investment in technology to create a market leading trading platform providing additional capacity and speed to the Firm's clients

Investment Management

- ◆ 27% growth of Assets Under Management to \$358 billion by the end of 2008
- ◆ 45% increase in Asset Management net flows to \$45bn in 2008
- ◆ Rolling out of new Private Equity funds
- ◆ Build out of the European asset management platform

Infrastructure & Technology

- ◆ Reengineer front-to-back trade processing for Equity Derivatives and Fixed Income growth
- ◆ Continue to migrate functionality to modularized components to reduce reliance on mainframe processes
- ◆ Improve scalability and control of middle office processes

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Historical Compensation to Revenue Trend

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Lehman Brothers ⁽¹⁾															
Revenue (\$M)	19,257	17,583	14,630	11,576	8,647	6,155	6,736	7,707	5,340	4,113	3,873	3,444	3,071	2,738	
Compensation (\$M)	9,494	8,669	7,213	5,730	4,318	3,139	3,437	3,931	2,707	2,086	1,964	1,747	1,544	1,413	
Headcount	28,556	25,936	22,919	19,579	16,188	12,343	13,090	11,326	8,893	8,873	8,340	7,556	7,771	8,512	
Comp&Benefit Ratio	49.3%	49.3%	49.3%	49.5%	49.9%	51.0%	51.0%	51.0%	50.7%	50.7%	50.7%	50.7%	50.3%	51.6%	
Comp per Head (\$K)	332	334	315	293	267	254	263	347	304	235	235	231	199	166	
YoY Δ in Comp/Head	-1%	6%	8%	10%	5%	-3%	-24%	14%	29%	0%	2%	16%	20%		
Goldman Sachs ^(1,2,3)															
Revenue (\$M)	45,987	37,665	25,238	20,951	16,023	13,986	15,811	16,590	13,345						
Compensation (\$M)	20,190	16,457	11,758	9,620	7,393	6,744	7,700	7,773	6,459						
Headcount	30,632	26,467	23,623	21,736	20,359	20,633	22,677	22,627	15,361						
Comp&Benefit Ratio	43.9%	43.7%	46.6%	45.9%	46.1%	48.2%	48.7%	46.9%	48.4%						
Comp per Head (\$K)	661	622	498	443	363	327	340	344	420						
YoY Δ in Comp/Head	6%	25%	12%	22%	11%	-4%	-1%	-18%							
Bear Stearns ⁽⁴⁾															
Revenue (\$M)	5,945	9,227	7,411	6,813	5,994	5,128	4,907	5,476	4,502	4,341	3,526	2,983	2,075	2,417	2,143
Compensation (\$M)	3,425	4,343	3,553	3,254	2,881	2,508	2,529	2,789	2,266	2,095	1,717	1,469	1,080	1,227	1,037
Headcount	14,153	13,566	11,843	10,961	10,532	10,574	10,452	11,201	9,808	9,180	8,309	7,749	7,481	7,321	6,306
Comp&Benefit Ratio	57.6%	47.1%	47.9%	47.8%	48.1%	48.9%	51.5%	50.9%	50.3%	48.2%	48.7%	49.3%	52.1%	50.8%	48.4%
Comp per Head (\$K)	242	320	300	297	274	237	242	249	231	228	207	190	144	168	164
YoY Δ in Comp/Head	-24%	7%	1%	9%	15%	-2%	-3%	8%	1%	10%	9%	31%	-14%	2%	
Morgan Stanley ⁽⁵⁾															
Revenue (\$M)	28,026	29,839	26,778	23,708	20,817	19,074	22,008	26,163	21,681	16,122	14,509	12,023	9,820	8,630	8,599
Compensation (\$M)	16,552	13,986	11,313	9,853	8,522	7,910	9,352	10,899	8,365	6,609	6,019	5,071	4,005	3,535	3,687
Headcount	48,256	43,124	53,218	53,284	51,196	55,726	61,319	62,679	55,288	45,712	47,277	33,084	N/A	N/A	N/A
Comp&Benefit Ratio	59.1%	46.9%	42.2%	41.6%	40.9%	41.5%	42.5%	41.7%	38.6%	41.0%	41.5%	42.2%	40.8%	41.0%	42.9%
Comp per Head (\$K)	343	324	213	185	166	142	153	174	151	145	127	153	N/A	N/A	N/A
YoY Δ in Comp/Head	6%	53%	15%	11%	17%	-7%	-12%	15%	5%	14%	-17%				
Merrill Lynch ⁽⁷⁾															
Revenue (\$M)	11,250	33,781	26,022	22,059	19,900	18,371	21,548	26,379	22,313	17,790	16,503	13,913	10,615	9,959	
Compensation (\$M)	15,903	16,867	12,441	10,663	9,886	10,802	12,818	14,259	11,337	9,308	8,333	7,012	5,270	4,952	
Headcount	64,200	56,200	54,600	50,600	48,100	50,900	57,100	71,600	67,900	65,200	60,500	53,200	48,500	46,300	
Comp&Benefit Ratio	141.4%	49.9%	47.8%	48.3%	49.7%	58.8%	59.5%	54.1%	50.8%	52.3%	50.5%	50.4%	49.6%	49.7%	
Comp per Head (\$K)	248	300	228	211	206	212	224	199	167	143	138	132	109	107	
YoY Δ in Comp/Head	-17%	32%	8%	3%	-3%	-5%	13%	19%	17%	4%	4%	21%	2%		
JP Morgan ^(8,9)															
Revenue (\$M)	26,805	25,620	20,277	16,812	15,654	13,614									
Compensation (\$M)	11,486	10,967	7,971	6,475	5,675	5,439									
Headcount	40,342	37,027	31,929	29,788	23,211	23,558									
Comp&Benefit Ratio	42.9%	42.8%	39.3%	38.5%	36.3%	40.0%									
Comp per Head (\$K)	285	296	250	217	244	231									
YoY Δ in Comp/Head	-4%	19%	15%	-11%	6%										

⁽¹⁾ 1994 represents 11 months of data (ending on Nov 30th)

⁽²⁾ From 1999 to 2004, compensation expense excludes IPO awards amortization

⁽³⁾ Beginning in the fourth quarter of 2006, "Cost of power generation" in the consolidated statement of earnings was reclassified to operating expenses. "Cost of power generation" was previously reported as a reduction to revenues. Prior periods have been reclassified as well.

⁽⁴⁾ 1999 results are on a pro-forma basis

⁽⁵⁾ On 1/18/00, the BoD elected to change FY from June 30 to Nov 30, effective FY beg Dec 1, 1999. 1999 results reflect a June 1999 FY end while 2000 results run from Dec 1, 1999 thru Nov 30, 2000

⁽⁶⁾ 2006 and 2007 have been restated to exclude Discover

⁽⁷⁾ 2006 includes the impact of the BlackRock merger and the impact of one-time compensation expenses related to FAS 123R

⁽⁸⁾ Consists of Investment Banking plus Investment Management & Private Banking through 2003; Asset & Wealth Management through 2005; Asset Management thereafter

⁽⁹⁾ Prior to 2002, JPMorgan Chase results do not include compensation or headcount by segment. Revenues are reported on an operating basis.

COMPENSATION FOR HIGH NEW WORTH PORTFOLIO MANAGERS

- High Net Worth Portfolio Managers (“HNW PMs”) in Asset Management are compensated on a formula basis (in a fashion similar to High New Worth Investment Representatives).
- Production payout is tied to a percentage of revenues (which varies according asset source) and paid monthly. Revenues are derived from investment advisory fees charged to clients.
- The following payout structure applies generally to HNW PMs:

<u>Asset Source</u>	<u>Payout as % of Revenues</u> ¹	<u>Approx. % of Assets</u>
Direct	40%	55%
HNW Sales Force	25%	25%
Institutional Sales Force	20%	20%

- Assets not directly sourced by the HNW PM teams are paid at a lower rate since the source (HNW or institutional) is also paid on the revenues generated by the same assets:
 - HNW sales force receives a first-year payout of 30% of revenues, with an annual “trailer” of 10% (or up to 20% if certain sales goals have been met).
 - Institutional sales force receives a first-year payout of 25%, with declines to 10% in year 2 and 5% in subsequent years.

¹ HNW PMs who are former Neuberger Berman Founders receive a 22% payout on revenues from directly sourced assets up to a high-water mark established at the Neuberger Berman IPO—and which increases by 4% per year. Assets above the high-water mark are eligible for the regular (i.e., 40%) payout. The two-tier payout structure is due to the purchase of the Founder’s book of business at the time of the IPO in exchange for shares in the new public company (“Founders Shares”). This same group of HNW PMs may also receive a 22% payout on revenues sourced through the High Net Worth sales force up to a high-water mark and regular payout of 25% of revenues in excess of the high-water mark.